

MPSERS Payroll Growth Assumption

PA 181 of 2018 & Subsequent Changes

Representative Thomas Albert

MI House of Representatives

Appropriations Committee

2/17/2021



STATE OF MICHIGAN

RICK SNYDER
GOVERNOR

DEPARTMENT OF TECHNOLOGY, MANAGEMENT & BUDGET
LANSING

DAVID L. DEVRIES
DIRECTOR

May 24, 2018

TO: David L. DeVries
Department of Technology, Management & Budget

Scott Koenigsnecht, Chair
Michigan Public School Employees' Retirement Board

FROM: Kerrie Vanden Bosch, Director
Office of Retirement Services

SUBJECT: Approval of Actuarial Assumptions – Michigan Public School Employees' Retirement System

The Public School Employees Retirement Act provides that the assumptions used in the annual valuations of the Michigan Public School Employees' Retirement System be approved by both the Department of Technology, Management & Budget and the Retirement Board.

Based on the enclosed actuarial experience study, the system's actuary has recommended the following actuarial assumptions:

1. Retain the current investment return assumptions for both Hybrid, non-Hybrid, and Other Postemployment Benefits (OPEB) assets.
 - The actuary presented options for lowering the non-Hybrid and OPEB assumed rates of return but advises that 7.05% and 7.15% continue to be reasonable assumptions.
2. Reduce the price inflation assumption from 2.50% to 2.25%.
3. Reduce the payroll growth and wage inflation assumptions from 3.50% to 2.75%.
4. Reduce the Ultimate Trend Rate for healthcare from 3.50% to 3.0%.
5. Adopt revised assumptions on mortality rates.
6. Adopt revised assumptions on withdrawal rates.
7. Adopt revised assumptions on rates of age and service retirement.
8. Adopt revised assumptions on rates of early reduced retirement.
9. Adopt revised assumptions on merit and seniority pay increases.
10. Adopt the same asset valuation method for the OPEB plan as for the pension plan, which would establish five-year asset smoothing to reduce volatility and a market value corridor.
11. Retain the current rates of duty and non-duty disability.
12. Retain the current actuarial funding method and the current amortization policy.
13. Add a load onto pension and OPEB normal cost for administrative costs, rather than netting those costs out of investment performance.

These changes will be effective October 1, 2017.

Please indicate your approval of these recommendations by signing below.

Scott Koenigsnecht, Chair
Michigan Public School Employee's Retirement Board

David L. DeVries, Director
Department of Technology, Management & Budget

MPERS Board Minutes

2507

A regular meeting of the **Michigan Public School Employees' Retirement System Board** was held at the Stevens T. Mason Building, 530 W. Allegan Street, First Floor Board Room, Lansing, Michigan, on Thursday, July 19, 2018. The following members, staff, and observers participated:

Members Present: Charles "Dan" Christner, Retiree Member
Laura Colligan, Reporting Unit Board of Control Member
Liz Eastway, Non-Certified Educational Support Member
Stephen Epstein, General Public Member, Investment Experience
Ann Kroneman, Community College Administrator/Trustee
Member
Jeff Mills, Active Superintendent Member
Timothy Raymer, Representing Finance/Operations, Retirants,
Member of largest retirant organization
Alan Sonnanstine, General Public Member, Actuarial Experience
Mark Howe on behalf of Sheila Alles, Interim Superintendent of
Public Instruction

Staff Present: Kerrie Vanden Bosch, Executive Secretary
Lisa Reibold, Recording Secretary

Others Present: Kathy Markman of the Attorney General's office; James Pearson of the MEA; Ronda Daugherty of IBM Watson Health; Don Johnson of Michigan Association of Retired School Personnel; Rosalyn Slade from Priority Health; Patricia Trelstad a retiree of Okemos Public Schools; Virginia Gibson and Brian Morris of Willis Towers Watson; Christal Smith from the Auditor General; Robert Dietzel and Philip Clark of Thrun Law Firm; Jocelyn Hain and Monica Valentine of Optum Rx; Angela Hua of Truven IBM; Caleb Chamberlain of Office of Retirement Services; Lori Shannon of Blue Cross Blue Shield Michigan.

Call to Order

Vice Chair Timothy Raymer called the meeting to order at 10:29 a.m.

Excusing of Absent Members

Ann Kroneman moved, Stephen Epstein supported, to excuse the absences of Mike Engle and Kevin Philipps. The motion carried unanimously.

Approval of Agenda

Dan Christopher moved, Laura Colligan supported, to approve the agenda as presented. The motion carried unanimously.

Approval of Minutes

Stephen Epstein moved, Dan Christner supported, to approve the regular session meeting minutes of May 24, 2018. The motion carried unanimously.

Administrative Hearings

Proposal for Decision – Docket 17-015623-ORS

The Board considered the case materials. Liz Eastway moved, Dan Christner supported, that the Board adopt as its own the recommendations of the Presiding Officer in the March 16, 2018, Proposal for Decision, including the proposed Findings of Fact and Conclusions of Law, and deny Petitioner's request for non-duty disability. The motion carried unanimously.

Proposal for Decision – Docket 17-005279-ORS

The Board considered the case materials. Liz Eastway moved, Dan Christner supported, that the Board adopt as its own the recommendations of the Presiding Officer in the October 3, 2017, Proposal for Decision, including the proposed Findings of Fact and Conclusions of Law, and deny Petitioner's request to include her responsibility stipends and one-time stipends in her Final Average Compensation (FAC). The motion carried unanimously.

Special Reports

Jocelyn Hain from Optum Rx presented the Annual Managed Prescription Drug Report.

Standing Reports

Legislative Summary - The Board received the current report.

Executive Secretary Comments

Executive Secretary, Kerrie Vanden Bosch, welcomed Jeff Mills to the board. Ms. Vanden Bosch also advised the Board that Public Act 181 was signed into law. PA 181 overrides the board's adoption of the 2.75% payroll growth assumption as part of the experience study. Instead, the payroll growth assumption will remain at 3.50% for the FY17 and FY18 valuations, and then gradually phase down 0.50% per year starting with the FY19 valuation until it reaches 0.00%.

Board Comments

No board comments were made.

Public Comments

No public comments were made.

Adjournment

Mark Howe moved, Jeff Mills supported, that the meeting be adjourned. The motion carried unanimously, and Vice Chair Timothy Raymer adjourned the meeting at 10:59 a.m.

OFFICIAL MINUTES

Signature on file
Chair

Signature on file
Executive Secretary

Act No. 181
Public Acts of 2018
Approved by the Governor
June 11, 2018
Filed with the Secretary of State
June 11, 2018
EFFECTIVE DATE: June 11, 2018

**STATE OF MICHIGAN
99TH LEGISLATURE
REGULAR SESSION OF 2018**

Introduced by Rep. Albert

ENROLLED HOUSE BILL No. 5355

AN ACT to amend 1980 PA 300, entitled "An act to provide a retirement system for the public school employees of this state; to create certain funds for this retirement system; to provide for the creation of a retirement board; to prescribe the powers and duties of the retirement board; to prescribe the powers and duties of certain state departments, agencies, officials, and employees; to authorize and make appropriations for the retirement system; to prescribe penalties and provide remedies; and to repeal acts and parts of acts," by amending section 41 (MCL 38.1341), as amended by 2017 PA 92.

The People of the State of Michigan enact:

Sec. 41. (1) The annual level percentage of payroll contribution rates to finance benefits being provided and to be provided by the retirement system must be determined by actuarial valuation under subsection (2) on the basis of the risk assumptions that the retirement board and the department adopt after consultation with the state treasurer and an actuary. An annual actuarial valuation must be made of the retirement system to determine the actuarial condition of the retirement system and the required contribution to the retirement system. An annual actuarial gain-loss experience study of the retirement system must be made to determine the financial effect of variations of actual retirement system experience from projected experience.

(2) Except as otherwise provided in sections 41a and 41b, the annual contribution rates for benefits are subject to all of the following:

(a) Except as otherwise provided in this subdivision, the contribution rate for benefits must be computed using an individual projected benefit entry age normal cost method of valuation. If the contributions described in section 43e are determined by a final order of a court of competent jurisdiction for which all rights of appeal have been exhausted to be unconstitutional and the contributions are not deposited into the appropriate funding account referenced in section 43e, the contribution rate for health benefits provided under section 91 must be computed using a cash disbursement method.

(b) Subject to subdivision (c), the contribution rate for service likely to be rendered in the current year, the normal cost contribution rate, for reporting units must be determined as follows:

(i) Calculate the aggregate amount of individual projected benefit entry age normal costs.

(ii) Divide the result of the calculation under subparagraph (i) by 1% of the aggregate amount of active members' valuation compensation.

(c) Except for the employee portion of the normal cost contribution rates for members under section 41b(2), beginning with the state fiscal year ending September 30, 2018 and for each subsequent fiscal year, the normal cost contribution rate must not be less than the normal cost contribution rate in the immediately preceding state fiscal year.

(d) Subject to subdivision (e), the contribution rate for unfunded service rendered before the valuation date, the unfunded actuarial accrued liability contribution rate, must be determined as follows:

(i) Calculate the aggregate amount of unfunded actuarial accrued liabilities of reporting units as follows:

(A) Calculate the actuarial present value of benefits for members attributable to reporting units.

(B) Calculate the actuarial present value of future normal cost contributions of reporting units.

(C) Calculate the actuarial present value of assets on the valuation date.

(D) Add the results of sub-subparagraphs (B) and (C).

(E) Subtract from the result of the calculation under sub-subparagraph (A) the result from the calculation under sub-subparagraph (D).

(ii) Subject to subsection (18), divide the result of the calculation under subparagraph (i) by 1% of the actuarial present value over a period not to exceed 50 years of projected valuation compensation.

(e) Except for the employee portion of the unfunded actuarial accrued liability contribution rates for members under section 41b(2), beginning with the state fiscal year ending September 30, 2018 and for each subsequent fiscal year until the state fiscal year ending September 30, 2021, the unfunded actuarial accrued liability contribution rate must not be less than the unfunded actuarial accrued liability contribution rate in the immediately preceding state fiscal year. Beginning with the state fiscal year ending September 30, 2022, and for each subsequent fiscal year until the unfunded actuarial accrued liability is paid off, the unfunded actuarial accrued liability contribution sum due and payable must not be less than the unfunded actuarial accrued liability contribution sum due and payable in the immediately preceding state fiscal year.

(f) Beginning with the state fiscal year ending September 30, 2013 and for each subsequent fiscal year, the unfunded actuarial accrued liability contribution rate applied to payroll must not exceed 20.96% for a reporting unit that is not a university reporting unit. Any additional unfunded actuarial accrued liability contributions as determined under this section for each fiscal year are to be paid by appropriation from the state school aid fund established by section 11 of article IX of the state constitution of 1963. Except as otherwise provided in this section, section 41a, and section 41b, the unfunded actuarial accrued liability contribution rate must be based on and applied to the combined payrolls of the employees who are members or qualified participants, or both.

(g) Beginning with the state fiscal year ending September 30, 2020 and for each subsequent fiscal year, for a reporting unit that is not a university reporting unit, tax supported community or junior college, public school academy, or district library as that term is defined in section 69g, the unfunded actuarial accrued liability contribution rate determined under subdivision (d) must be applied to the reporting unit's payroll, as adjusted under subdivision (h).

(h) Beginning with the state fiscal year ending September 30, 2020, the payroll for which the unfunded actuarial accrued liability contribution rate is applied for a reporting unit described in subdivision (g) must be adjusted by the growth rate of the reporting unit's payroll plus purchased services in the previous fiscal years based on methods as determined by the retirement system and in consultation with the system's actuary. The adjusted payroll under this subdivision must become the basis on which the contribution rate provided under subdivision (d) for each subsequent state fiscal year is determined for a reporting unit described in subdivision (g).

(i) Beginning with the state fiscal year ending September 30, 2016 and for each subsequent state fiscal year, the unfunded actuarial accrued liability contribution rate applied to the combined payroll, as provided in section 41a, must not exceed 25.73% for a university reporting unit. Any additional unfunded actuarial accrued liability contributions as determined under this section for each fiscal year for university reporting units are to be paid by appropriation under article III of the state school aid act of 1979, 1979 PA 94, MCL 388.1836 to 388.1891.

(3) Before November 1 of each year, the executive secretary of the retirement board shall certify to the director of the department the aggregate compensation estimated to be paid public school employees for the current state fiscal year.

(4) On the basis of the estimate under subsection (3), the annual actuarial valuation, and any adjustment required under subsection (6), the director of the department shall compute the sum due and payable to the retirement system and shall certify this amount to the reporting units.

(5) Except as provided in section 41b, the reporting units shall pay the amount certified under subsection (4) to the director of the department in equal payroll cycle installments for unfunded actuarial accrued liability contributions and payroll cycle installments for normal cost contributions.

(6) Not later than 90 days after termination of each state fiscal year, the executive secretary of the retirement board shall certify to the director of the department and each reporting unit the actual aggregate compensation paid to public school employees during the preceding state fiscal year. On receipt of that certification, the director of the department may compute any adjustment required to the amount because of a difference between the estimated and the actual aggregate compensation and the estimated and the actual actuarial employer contribution rate. The difference, if any, must be paid as provided in subsection (9). This subsection does not apply in a fiscal year in which a deposit occurs under subsection (14).

(7) The director of the department may require evidence of correctness and may conduct an audit of the aggregate compensation that the director of the department considers necessary to establish its correctness.

(8) A reporting unit shall forward employee and employer Social Security contributions and reports as required by the federal old-age, survivors, disability, and hospital insurance provisions of title II of the social security act, 42 USC 401 to 434.

(9) For an employer of an employee of a local public school district or an intermediate school district, for differences occurring in fiscal years beginning on or after October 1, 1993, a minimum of 20% of the difference between the estimated and the actual aggregate compensation and the estimated and the actual actuarial employer contribution rate described in subsection (6), if any, must be paid by that employer in the next succeeding state fiscal year and a minimum of 25% of the remaining difference must be paid by that employer in each of the following 4 state fiscal years, or until 100% of the remaining difference is submitted, whichever first occurs. For an employer of other public school employees, for differences occurring in fiscal years beginning on or after October 1, 1991, a minimum of 20% of the difference between the estimated and the actual aggregate compensation and the estimated and the actual actuarial employer contribution rate described in subsection (6), if any, must be paid by that employer in the next succeeding state fiscal year and a minimum of 25% of the remaining difference must be paid by that employer in each of the following 4 state fiscal years, or until 100% of the remaining difference is submitted, whichever first occurs. In addition, interest must be included for each year that a portion of the remaining difference is carried forward. The interest rate must equal the actuarially assumed rate of investment return for the state fiscal year in which payment is made. This subsection does not apply in a fiscal year in which a deposit occurs under subsection (14).

(10) Beginning on September 30, 2006, all assets held by the retirement system must be reassigned their fair market value, as determined by the state treasurer, as of September 30, 2006, and in calculating any unfunded actuarial accrued liabilities, any market gains or losses incurred before September 30, 2006 may not be considered by the retirement system's actuaries.

(11) Except as otherwise provided in this subsection, beginning on September 30, 2006, the actuary used by the retirement board shall assume a rate of return on investments of 8% per annum, as of September 30, 2006, which rate may only be changed with the approval of the retirement board and the director of the department. Beginning on July 1, 2010, the actuary used by the retirement board shall assume a rate of return on investments of 7% per annum for investments associated with members who first became members after June 30, 2010, and before February 1, 2018, which rate may only be changed with the approval of the retirement board and the director of the department. Beginning on February 1, 2018, the actuary used by the retirement board shall assume a rate of return on investments of 6% per annum for investments associated with members who first became a member on or after February 1, 2018, which rate may only be changed with the approval of the retirement board and the director of the department.

(12) Beginning on September 30, 2006, the value of assets used must be based on a method that spreads over a 5-year period the difference between actual and expected return occurring in each year after September 30, 2006, and the methodology may only be changed with the approval of the retirement board and the director of the department.

(13) Beginning on September 30, 2006, the actuary used by the retirement board shall use a salary increase assumption that projects annual salary increases of 4%. In addition to the 4%, the retirement board shall use an additional percentage based on an age-related scale to reflect merit, longevity, and promotional salary increase. The actuary shall use this assumption until a change in the assumption is approved in writing by the retirement board and the director of the department.

(14) For fiscal years that begin on or after October 1, 2001, if the actuarial valuation prepared under this section demonstrates that as of the beginning of a fiscal year, and after all credits and transfers required by this act for the previous fiscal year have been made, the sum of the actuarial value of assets and the actuarial present value of future normal cost contributions exceeds the actuarial present value of benefits, the amount based on the annual level percent of payroll contribution rate under subsections (1) and (2) may be deposited into the health advance funding subaccount created by section 34.

(15) Notwithstanding any other provision of this act, if the retirement board establishes an arrangement and fund as described in section 6 of the public employee retirement benefit protection act, 2002 PA 100, MCL 38.1686, the benefits that are required to be paid from that fund must be paid from a portion of the employer contributions described in this section or other eligible funds. The retirement board shall determine the amount of the employer contributions or other eligible funds that must be allocated to that fund and deposit that amount in that fund before it deposits any remaining employer contributions or other eligible funds in the pension fund.

(16) The retirement board and the department shall conduct and review an experience investigation study and adopt risk assumptions on which actuarial valuations are to be based after consultation with the actuary and the state treasurer. The experience investigation study must be completed and risk assumptions must be periodically reviewed at least once every 5 years.

(17) Every April 1 following the periodic review of risk assumptions under subsection (16), the office of retirement services on behalf of the department and the state treasurer shall collaborate to submit a report to the senate majority leader, the speaker of the house of representatives, the senate and house of representatives appropriations committees,

and the senate and house fiscal agencies. A report required under this subsection must be published on the office of retirement services's website and include at least all of the following:

(a) Forecasted rate of return on investments at all of the following probability levels:

- (i) 5%.
- (ii) 25%.
- (iii) 50%.
- (iv) 75%.
- (v) 95%.

(b) The actual rate of return on investments for 10-, 15-, and 20-year intervals.

(c) Mortality assumptions.

(d) Retirement age assumptions.

(e) Payroll growth assumptions.

(f) Any other assumptions that have a material impact on the financial status of the retirement system.

(18) Except as otherwise provided in this subsection, for members who first became members before February 1, 2018, beginning with the state fiscal year ending September 30, 2022 and for each subsequent state fiscal year until the pension and retiree health care payroll growth assumption rate for a reporting unit that is not a university reporting unit is zero, the payroll growth assumption rate for a reporting unit that is not a university reporting unit must be reduced by 50 basis points. Beginning with the state fiscal year ending September 30, 2025 and for each subsequent state fiscal year until the rate described in this subsection is zero, if the pension and retiree health care unfunded actuarial accrued liability contribution sum directly attributable to the 50 basis points reduction under this subsection for the current fiscal year is 7% or more of the pension and retiree health care unfunded actuarial accrued liability contribution sum in the immediately preceding state fiscal year, the office of retirement services may reduce the rate described in this subsection by 25 basis points in that current fiscal year instead of the 50 basis point reduction described in this subsection.

(19) As used in this section:

(a) "Payroll plus purchased services" includes functions 1xx, 2xx, and 45x, and object codes 1xxx, 31xx, 33xx, and 41xx, as defined in the most recent "Michigan Public School Accounting Manual Bulletin 1022" as of July 13, 2017, and is equal to the total of salaries, professional and technical services, client/pupil transportation, and repairs and maintenance services expenditures, including the charges incurred in the general, special education, and vocational education funds for the benefit of the current fiscal year, whether paid or unpaid.

(b) "University reporting unit" means a reporting unit that is a university listed in the definition of public school employee under section 6.

This act is ordered to take immediate effect.



.....
Clerk of the House of Representatives



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Secretary of the Senate

Approved

.....
Governor

Legislative Analysis



MPSERS ACTUARIAL PAYROLL ASSUMPTIONS

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 5355 (S-2) as Enacted
Public Act 181 of 2018
Sponsor: Rep. Thomas Albert
Committee: Financial Liability Reform
Complete to 12-6-18

Analysis available at
<http://www.legislature.mi.gov>

BRIEF SUMMARY:

House Bill 5355 would amend the Public School Employees Retirement Act to phase in lower assumptions for payroll growth for the Michigan Public School Employees' Retirement System (MPSERS) until the assumption reaches 0%, thus indirectly changing the amortization method used to pay off the unfunded actuarial liability (UAL) from a level percent of payroll method to a level dollar method.

It also would revise a mechanism added in PA 92 of 2017 that would have adjusted each employer's payroll base by its growth in current operating expenditures (COE), to replace COE with a more narrowly defined payroll plus purchased services (PPPS). A more detailed summary of the bill follows.

BACKGROUND:

Currently, the actuary uses a payroll growth assumption of 3.5%—along with assumptions for many other variables—when calculating long-term actuarial assets and liabilities and any shortfall between the two, which is known as the unfunded actuarial liability (UAL). The actuary then calculates annual employer contributions based on what those assumptions determine must be contributed in any given year to meet the long-term liabilities.

The actuary currently uses a “level percent of payroll” amortization method to calculate the annual contribution necessary to pay off the UAL for the remaining years of the amortization period—currently 21 more years. Under this method, the assumption is that a contribution rate based on a fixed percentage of an annually growing payroll will collect higher contributions every year, thus paying off the UAL more slowly initially and back-loading payments more heavily toward the end of the amortization period.

However, if total payroll does not grow as quickly as the actuary assumes, as has been true for MPSERS, then the calculated contribution rate will not achieve the actual annual required contribution necessary to meet those long-term obligations and the UAL increases. Rather than growing, MPSERS-reported payroll has been steadily declining since 2004 by an average annual rate of 2.2%. The resulting shortfall in annual contributions adds to the UAL and requires an increasing contribution rate both because the UAL is higher and because the payroll base to which it is applied is lower.

An alternative method that may be used is a “level dollar” amortization method—which the bill would indirectly accomplish—where the annual contribution total is a fixed sum rather than a percentage of payroll. Under this method, the total contribution necessary over the remaining years of the amortization period is divided into equal annual required payments. On its own, using a level dollar amortization method eliminates any risk associated with not meeting the assumed payroll growth and allows earlier higher contributions more time to accumulate investment earnings.

DETAILED SUMMARY:

Actuarial Payroll Growth Assumption

House Bill 5355 would lower the assumption for MPSERS payroll growth rate by 50 basis points each year, beginning in fiscal year (FY) 2021-22, until the assumption is 0%, presumably in FY 2027-28. However, the bill would allow ORS, beginning in FY 2024-25, to reduce the rate by 25 basis points instead in any year in which the direct cost of a 0.5 point reduction would increase the combined pension and retiree health care UAL contribution by 7% or more compared to the previous fiscal year. Once the payroll growth assumption is 0%, the amortization method would shift to level dollar amortization effectively because a fixed percent of payroll contribution rate on an assumed flat payroll would result in a fixed dollar contribution.

Beginning in FY 2021-22, the bill also would revise the current payroll contribution rate floor, which was added by PA 72 of 2017 to prevent the contribution rate charged to MPSERS employers from decreasing in any given year until the UAL was fully paid, to a contribution dollar sum floor instead to align with the effective change from a level percent of payroll amortization method to a level dollar method. [A floor ensures that any subsequent changes in either experience or actuarial assumptions that lower the UAL result in paying off the UAL more quickly rather than reducing the annual contributions and creates stability because making contributions that are higher than otherwise necessary in some years mitigates losses in other years.]

The bill applies only to MPSERS employers that are not universities, which have their own amortization under Section 41a. The bill also applies only to the calculation and amortization for the UAL related to benefits for employees hired prior to February 1, 2018, prior to the implementation of the revised hybrid plan added in PA 72 of 2017, which has its own amortization under Section 41b.

COE vs. PPPS

PA 92 of 2017 amended the base on which each employer is assessed its share of MPSERS costs from payroll to payroll adjusted by growth in COE beginning with FY 2018-19. The adjusted payroll base is intended to create a more stable base for employers even if the employer shifts existing MPSERS payroll employees to contract employees to avoid an individual employer from further “stranding” costs with the system while lowering their own UAAL contribution. However, COE is a broad measure of an employer’s costs and includes things that are not payroll related like textbooks, buses, gasoline, and utility costs.

House Bill 5355 would replace COE as the payroll adjustment factor with PPS, which would include only salaries and certain contracted services to more closely align with payroll and services that might previously have been included in payroll. More specifically, the bill defines PPS with the following school accounting codes:

- Object Code 1xxx – Salaries
- Object Code 31xx – Professional and Technical Services
- Object Code 33xx – Client/Pupil Transportation
- Object Code 41xx – Repairs and Maintenance Services

The bill also would postpone the use of the revised payroll adjustment until FY 2019-20, and would allow ORS the flexibility of using a growth rate from “previous fiscal years” rather than the “previous fiscal year” to allow for the lag in necessary data.

MCL 38.1341

FISCAL IMPACT:

Actuarial Payroll Growth Assumption

The fiscal impact of House Bill 5355 would vary depending on the extent to which actual payroll growth meets the actuarial payroll growth assumption. Near-term cost changes would affect the state, which currently pays for the share of the MPSERS UAL that exceeds an amount equal to 20.96% of payroll in the annual School Aid budget. However, long-term cost changes could affect both the state and MPSERS employers.

As described above, shifting to a level dollar amortization method generally front-loads payments compared to a level percent of payroll method, which typically creates an initial increase in costs compared to what would have otherwise been anticipated. Those short-term cost increases are offset by long-term savings because contributing those funds into the system earlier also allows them to gain investment returns over a longer period.

However, if annual payroll actually grows 3.5%, because the bill phases in a lower growth assumption the state would have to contribute less each year for much of the amortization period compared to current law, thus increasing long-term costs. In this case, the long-term costs would increase costs by a cumulative \$2.7 billion over 21 years.

However, if payroll misses the currently assumed growth rate, actual collected contributions will fall short of the annual required contribution, thus increasing the UAL and subsequent costs compared to those assumed by the actuary. For example, if annual payroll actually grows 1.5%, the bill’s required contributions would equal those we would have seen otherwise initially and then grow each year until the annual cost exceeded current law costs by approximately \$576.4 million in FY 2026-27. At that point the comparative costs would decline, and by FY 2031-32, the bill’s required contributions would be lower than current law costs. Under this scenario, the bill would save \$2.9 billion over the life of the amortization period.

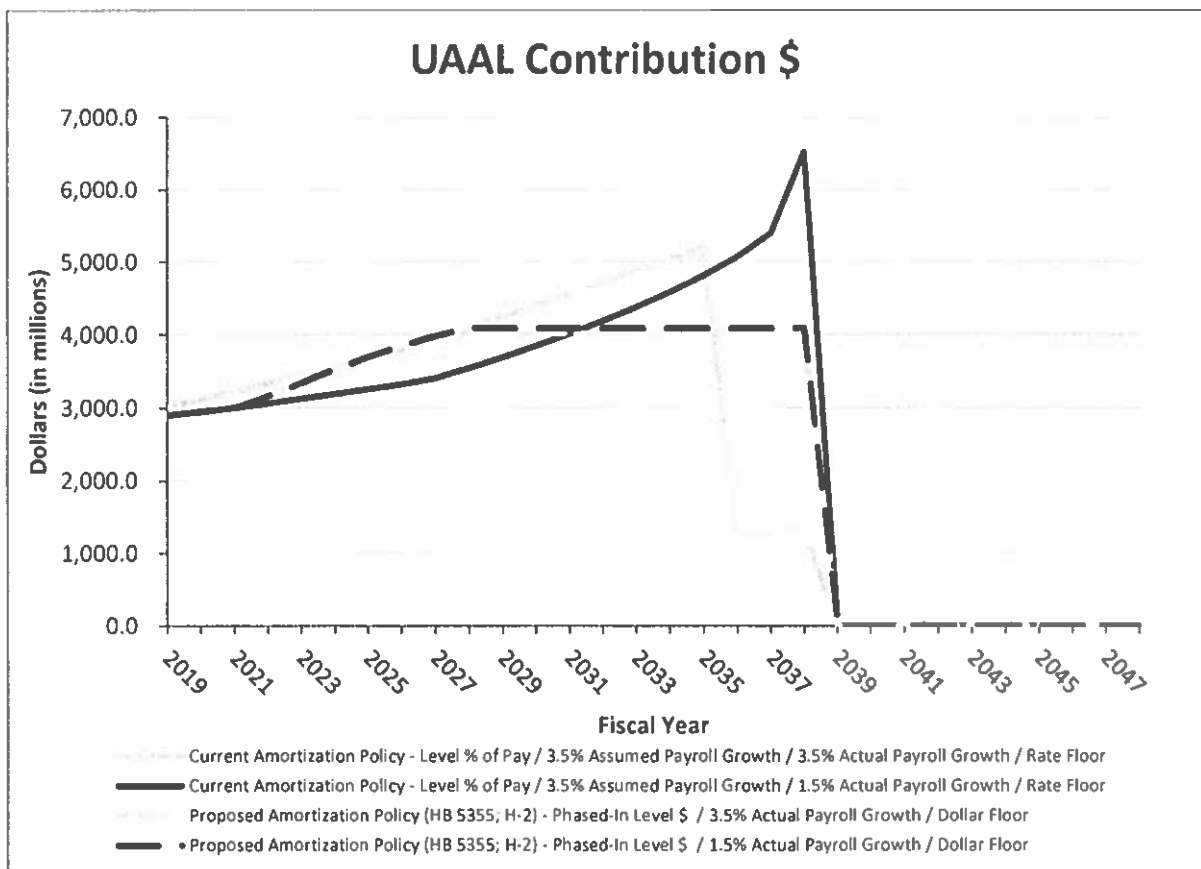
If actual payroll growth continues to decline or remains flat, the bill’s required contributions would exceed those required initially by an even greater amount, but also would achieve significantly greater long-term savings.

The figure below provided by the Office of Retirement Services illustrates the actuarial estimates of the annual fiscal impact of House Bill 5355 compared to the two scenarios described above. The table on page 5 provides the detailed estimates behind the figure.

Neither scenario below estimates an event that would trigger the slower payroll growth rate assumption reduction (0.25 points rather than 0.5) allowed under the bill if the cost of the policy change increases by 7% or more. However, were that to happen, the costs compared to current law in that year would decrease as would overall savings related to the revised assumption.

COE vs. PPPS

The PA 92 of 2017 payroll adjustment using COE would have distributed the future costs of increased UAAL contributions among MPSERS employers slightly differently beginning in FY 2018-19; however there was no data regarding the potential change in future cost allocation. Likewise, the change to PPPS proposed by the bill would vary the cost distribution again somewhat compared to what would otherwise happen under COE. Generally, the bill would avoid charging an employer added MPSERS costs related to increases in expenditures that are not related to payroll or contracted services.



Source: Office of Retirement Services

Table: HB 5355 Fiscal Impact

Fiscal Year	UAAL Contributions (\$ in Millions)				HB 5355 (H-2) Cost/(Savings) (\$ in Millions)	
	Current Law Actual Payroll Growth = 3.5%	Current Law Actual Payroll Growth = 1.5%	HB 5355 (H-2) PG=3.5%	HB 5355 (H-2) PG=1.5%	If Actual Payroll Growth = 3.5%	If Actual Payroll Growth = 1.5%
2019	\$3,008.3	\$2,900.5	\$3,008.3	\$2,900.5	\$0.0	0.0
2020	3,113.7	2,943.9	3,113.7	2,943.9	0.0	0.0
2021	3,222.8	3,003.4	3,222.8	3,003.4	0.0	0.0
2022	3,335.6	3,064.8	3,222.8	3,159.9	(112.8)	95.1
2023	3,452.3	3,127.8	3,284.7	3,343.2	(167.6)	215.4
2024	3,573.0	3,191.6	3,465.2	3,528.0	(107.8)	336.4
2025	3,698.0	3,257.5	3,633.3	3,698.4	(64.7)	440.9
2026	3,827.7	3,325.0	3,782.6	3,851.2	(45.1)	526.2
2027	3,961.6	3,406.2	3,912.6	3,982.6	(49.0)	576.4
2028	4,100.2	3,545.4	4,017.4	4,089.4	(82.8)	544.0
2029	4,243.8	3,692.9	4,017.3	4,089.8	(226.5)	396.9
2030	4,392.0	3,847.1	4,015.9	4,089.3	(376.1)	242.2
2031	4,545.9	4,010.6	4,016.7	4,089.1	(529.2)	78.5
2032	4,705.1	4,187.6	4,016.9	4,088.9	(688.2)	(98.7)
2033	4,869.5	4,376.4	4,016.3	4,088.7	(853.2)	(287.7)
2034	5,040.0	4,582.2	4,017.1	4,090.1	(1,022.9)	(492.1)
2035	5,216.4	4,810.7	4,017.7	4,089.2	(1,198.7)	(721.5)
2036	1,232.5	5,074.2	4,016.8	4,089.6	2,784.3	(984.6)
2037	1,275.7	5,397.3	4,017.5	4,088.0	2,741.8	(1,309.3)
2038	1,320.4	6,528.9	4,016.9	4,089.1	2,696.5	(2,439.8)
TOTAL	\$72,134.5	\$78,274.0	\$74,832.5	\$75,392.3	\$2,698.0	(2,881.7)

Source: Office of Retirement Services

Fiscal Analyst: Bethany Wicksall

■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

Michigan Public School Employees' Retirement System

5-Year Experience Study

October 1, 2012 Through September 30, 2017



Payroll Growth Assumption

Payroll growth assumption. The payroll growth assumption is used in the determination of the amortization payments required to amortize the unfunded actuarial accrued liability. The payroll growth assumption is primarily dependent upon two items: (1) the wage inflation assumption and (2) the size of the active population. In some circumstances, the maturity of the plan population may also be considered. Since UAAL contributions for MPSERS are collected on the payroll of both defined benefit (DB) members and defined contribution (DC) members, the combined payroll (and by extension, size of the active population) of DB and DC members should be considered. The table below shows the average actual payroll growth of UAAL payroll over various periods, ending September 30, 2017:

Periods Ending September 30, 2017	MPSERS Actual Payroll Growth
Last five (5) years	-1.0%
Last ten (10) years	-1.7
Last fifteen (15) years	-1.0
Last twenty (20) years	0.2

For MPSERS, a significant contributor to the actual payroll growth figures shown above has been the decline in the size of the active population. Whether this decline will continue going forward is outside of the scope of our expertise. However, given past experience, our preferred payroll growth assumption is 0.0%. If the Board and the Department of Technology, Management and Budget expect that the active membership will not decline from its current level going forward, we would be comfortable with a payroll growth assumption up to the proposed wage inflation assumption of 2.75%.

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Presented below are computed UAAL amortization payments based upon the September 30, 2017 pension and OPEB valuations, using the proposed economic (current investment return assumptions) and demographic assumptions, but under alternate payroll growth assumptions:

UAAL Amortization Payment Dollars as of the September 30, 2017 Pension Valuation			
Payroll Growth Rate Assumption			
2.75%	2.00%	1.00%	0.00%
\$ 2,580,586,883	\$ 2,724,955,047	\$ 2,924,900,863	\$ 3,135,512,859

UAAL Amortization Payment Dollars as of the September 30, 2017 OPEB Valuation			
Payroll Growth Rate Assumption			
2.75%	2.00%	1.00%	0.00%
\$ 659,730,134	\$ 698,970,984	\$ 753,588,714	\$ 810,793,130

Payroll Growth Assumption (Concluded)

It is our understanding that House Bill No. 5355 (HB 5355) is currently being considered in the Michigan Legislature. HB 5355 would require the use of a particular payroll growth assumption for actuarial valuation purposes beginning with the September 30, 2018 actuarial valuations. One of the features of HB 5355 is that it would lower the payroll growth assumption for actuarial valuation purposes until the payroll growth assumption reached our preferred payroll growth assumption of 0.00% (i.e., level \$ amortization). Since HB 5355 was first being considered when the MPSERS payroll growth assumption was 3.50%, the initial payroll growth assumption that HB 5355 would require for actuarial valuation purposes is 3.50%. Presented below is our understanding of the payroll growth assumptions that HB 5355 would require for actuarial valuation purposes:

Actuarial Valuation as of September 30,	Payroll Growth Assumption
2018	3.50%
2019	3.00
2020	2.50
2021	2.00
2022	1.50
2023	1.00
2024	0.50
2025 and thereafter	0.00

HB 5355 would also allow for the payroll growth assumption to be reduced by 25 basis points from one valuation date to the next instead of 50 basis points if the cost of reducing the payroll growth assumption by 50 basis points exceeds 7% of the total cost of the prior year's UAAL amortization payment.

We are encouraged that the State is making attempts to reduce the payroll growth assumption for actuarial valuation purposes. Our preferred approach is for HB 5355 to be amended for an immediate reduction in the payroll growth assumption to at least 2.75% for the September 30, 2018 annual actuarial valuations; however, we are comfortable using the presented payroll growth assumptions above for the September 30, 2018 and 2019 actuarial valuations if HB 5355 becomes law in its current form.

Michigan Public School Employees' Retirement System

October 1, 2012 – September 30, 2017
Experience Study



Economic Assumptions – Payroll Growth

- Decline in the MPERS active population is primary factor in the realized payroll growth
- GRS' preferred assumption is 0.00%
 - However, if the Board and DTMB expect that the active membership will not decline from its current level going forward, we would be comfortable with a payroll growth assumption up to the wage inflation assumption of 2.75%

The Honorable Dana Nessel
Attorney General of Michigan
G. Mennen Williams Building, 7th Floor
525 West Ottawa
P.O. Box 30212
Lansing, MI 48909

Dear Attorney General Nessel:

I write to request your issuance of a formal Attorney General's opinion seeking further guidance and clarification Public Act 181 of 2018. The act establishes an automatic annual reduction of the payroll growth assumption beginning in the fiscal year ending in 2022. Under MCL 38.1341 (16) the MPSERS Retirement Board and the department are responsible for reviewing and adopting the actuarial assumptions at least every five years.

Does MCL 38.1341 (18) restrict the Michigan Public School Employee Retirement Board and the Department of Technology, Management & Budget from making payroll growth assumption adjustments prior to the automatic reduction that begin at the end of the fiscal year ending in 2022?

As noted in the attached, official report the Department of Technology, Management & Budget and the Michigan Public School Employee Retirement Board approved adjustments to actuarial assumptions that are utilized for public school employee retirement benefits. These adjustments were approved on May 24, 2018 and applied retroactively to October 1, 2017. The department has indicated that they will not be lowering the payroll growth assumption because they lack the statutory authority to make that change.

Sincerely,

Representative Thomas Albert
House District 86

STATE OF MICHIGAN
DEPARTMENT OF ATTORNEY GENERAL



P.O. Box 30212
LANSING, MICHIGAN 48909

DANA NESSEL
ATTORNEY GENERAL

January 24, 2020

The Honorable Thomas Albert
State Representative
N-1190 House Office Building
Lansing, MI 48933

Dear Representative Albert:

Attorney General Dana Nessel has asked me to respond to your request for an opinion concerning 2018 PA 181, which amended the Public School Employees Retirement Act, 1980 PA 300, MCL 38.1301 et seq. (Retirement Act), to provide for, among other things, the phase-in of lowered payroll growth assumptions used in amortizing the unfunded actuarial accrued liabilities (UAAL) of the Michigan Public School Employees Retirement System.

You ask whether section 41(18) of the Retirement Act, MCL 38.1341(18), restricts the Public School Employees' Retirement Board (Board) and the Department of Technology, Management and Budget (DTMB) from adopting payroll growth assumption adjustments prior to the automatic reductions that begin with the state fiscal year ending September 30, 2022.

Your letter advises that the DTMB "has indicated that they will not be lowering the payroll growth assumption because they lack the statutory authority to make that change."

The Board is charged with administering the Michigan Public School Employees Retirement System (MPERS). MCL 38.1325. The Board is comprised of the Superintendent of Public Instruction and 11 members appointed by the Governor. MCL 38.1321.

The provision of public employee retirement benefits and the funding for those benefits are governed by Const 1963, art 9, § 24, which provides:

The accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby.

Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities.

As the Supreme Court recounted in *Kosa v State Treasurer*, 408 Mich 356, 365 (1980):

In years prior to the Constitution of 1963, the Legislature did not always make adequate appropriations to maintain the MPERS on an actuarially sound basis. At the time of the 1961 Constitutional Convention, the unfunded accrued liabilities of the MPERS exceeded reserves by approximately 600 million dollars. The practical effect of this underfunding was that many pensioners had accumulated years of service for which insufficient money had been set aside in the pension reserve funds to pay the benefits to which their years of service entitled them. These pensioners sought relief in the 1961 Constitutional Convention and achieved Const. 1963, art. 9, § 24.

In *Kosa*, it was established that the pension reserves for service rendered by public school employees before the effective date of the 1963 Constitution were exhausted by 1975. The Board then started "borrowing" from the pension reserves set aside for post-1963 Constitution service. The Supreme Court found this "borrowing" to be a direct violation of article 9, § 24's bar against using annual pension funding reserves to pay "unfunded accrued liabilities." *Kosa*, at 367-368.

To stave off a funding crisis, the Legislature enacted 1977 PA 275 to change the MPERS funding method from "attained age" to "entry age normal." This change had the effect of creating surplus reserves that the Legislature proposed to use to pay the unfunded "pre-constitution" accrued liabilities. The Court in *Kosa* concluded that both the "attained age" or "entry age normal" funding methods were generally accepted and actuarially sound, and therefore found the Legislature's change to be constitutional and that the allocation of the "new" reserves to pay for "pre-constitution" liabilities did not violate article 9, § 24. *Kosa*, at 375.

The Retirement Act still uses the "entry age normal" method of valuation today. MCL 38.1341(2)(a). MPERS pension benefits are funded by means of an annual level payroll percentage rate that is determined by an actuarial valuation "on the basis of the risk assumptions that the retirement board and the department adopt after consultation with the state treasurer and an actuary." MCL 38.1341(1). MPERS "reporting units" (primarily school districts) then pay that percentage of

their payroll annually to MPERS to fund eligible employees' pension benefits. MCL 38.1342.¹

The Auditor General has described the valuation process:

[T]he actuary will determine, as of the valuation date, the total accrued liability, funding value of assets, and the annual required contribution (ARC) needed to fund the system. The ARC includes the amount needed to fund both the employer normal cost and the unfunded actuarial accrued liability (UAAL) amortization payment, if applicable. Using the ARC and the projected active member payroll for the upcoming fiscal year, the actuary will calculate an employer contribution rate for normal costs and an employer contribution rate for the UAAL.

[July 2014 Audit Report of the Auditor General, p 33 (footnote omitted).²]

In a report to the Board in May 2018, the actuary recommended that the Board and DTMB Director reduce the payroll growth assumption (one of the risk assumptions to be set by the Board and DTMB Director) for school districts from 3.50% to 2.75%. Shortly thereafter, the Board and DTMB Director approved the 2.75% recommendation for the fiscal year beginning October 1, 2017. The Board has not altered or rescinded its May 2018 action.

A few weeks after the May 2018 action, 2018 PA 181 was signed into law in June 2018.³ Among other changes, the Legislature added a new subsection (18) to MCL 38.1341, which mandates that:

... beginning with the state fiscal year ending September 30, 2022 and for each subsequent state fiscal year until the pension and retiree health care payroll growth assumption rate for a reporting unit that is not a university reporting unit is zero, the payroll growth assumption rate for a reporting unit that is not a university reporting unit must be reduced by 50 basis points.⁴

The Legislature amended MCL 38.1341(18) by 2018 PA 512 on December 28, 2018 to add:

¹ If the unfunded actuarial accrued liability contribution rate exceeds 20.96%, the excess portion is to be paid by appropriation from the State School Aid Fund. MCL 38.1341(2)(f).

² https://audgen.michigan.gov/finalpdfs/13_11/r0711152121.pdf (accessed January 8, 2020).

³ 2018 PA 181 was effective June 11, 2018.

⁴ 50 basis points equal 0.50%.

Beginning with the fiscal year ending September 30, 2022 and for each subsequent state fiscal year until the rate described in this subsection is zero, the office of retirement services and the retirement board may agree to reduce the rate described in this subsection by any number of additional basis points.

As noted by the House Fiscal Agency in its analysis of House Bill 5355, which became 2018 PA 181, the mandated payroll growth reductions better reflect real world experience. Specifically, the House Fiscal Agency noted that the "MPERS-reported payroll has been steadily declining since 2004 by an average annual rate of 2.2%."⁵ Moreover, both the House and Senate Fiscal Agencies reported that the net effect of the reduction of the payroll growth rate assumption is to increase annual funding as it is implemented so that MPERS' unfunded accrued liabilities are addressed sooner rather than later.⁶

Neither 2018 PA 181 nor 2018 PA 512 specified a starting payroll growth assumption rate. They provide only that, whatever the payroll growth assumption rate is at the start of an applicable fiscal year, it must be reduced by 50 basis points or by a greater reduction agreed to by "the office of retirement services and the retirement board."⁷

2018 PA 181 and 2018 PA 512 left untouched the Board's and DTMB Director's authority to determine risk assumptions made after consultation with the State Treasurer and the system's actuary under MCL 38.1341(1).

It is a fundamental principle of statutory construction that " 'a clear and unambiguous statute leaves no room for judicial construction or interpretation.' " *Massey v Mandell*, 462 Mich 375, 380; quoting *Coleman v Gurwin*, 443 Mich 59, 65 (1993). Instead, "when the Legislature has unambiguously conveyed its intent in a statute, the statute speaks for itself and there is no need for judicial construction;

⁵ House Fiscal Agency Legislative Analysis for House Bill 5355 (S-2) as Enacted, p 1.

⁶ House Fiscal Agency Legislative Analysis for House Bill 5355 (S-2) as Enacted, p 3. Senate Fiscal Agency H.B. 5355 (S-1) Summary of Bill on Third Reading, p 2.

⁷ MCL 38.1341(18) does give the Office of Retirement Services the option to scale back the growth rate assumption reduction to 25 basis points beginning in the fiscal year ending September 30, 2025, "if the pension and retiree health care unfunded actuarial accrued liability contribution sum directly attributable to the 50 basis points reduction under this subsection for the current fiscal year is 7% or more of the pension and retiree health care unfunded actuarial accrued liability contribution sum in the immediately preceding state fiscal year. . . ."

The Honorable Thomas Albert
Page 5
January 24, 2020

the proper role of a court is to apply the terms of the statute to the circumstances in a particular case." *Id.*

I, therefore, conclude that MCL 38.1341(18) does not restrict the Michigan Public School Employees' Retirement Board and the Director of the Department of Technology, Management and Budget from adopting, after consultation with the State Treasurer and the system's actuary, changes in payroll growth rate assumptions prior to the yearly mandated reductions that begin with the state fiscal year ending September 30, 2022. The payroll growth assumption set by the Board and DTMB Director in May 2018 stands unless changed by the Board and DTMB Director or reduced pursuant to MCL 38.1341(18).

Sincerely yours,



Suzanne D. Sonneborn
Chief Legal Counsel

Public Act 56 of 2019 State of Michigan Retirement Systems Report

A Message from the Director

The Michigan Office of Retirement Services (ORS) is pleased to present the Public Act (PA) 56 of 2019 State of Michigan Retirement Systems Report responses.

PA 56 of 2019 Section 821.2(a)(b)(c)(d)

- **State of Michigan Office of Retirement Services Section 821 Projections as of September 30, 2018**

PA 56 of 2019 Section 821.2e

- The following plans have a payroll growth assumption of 2.75%: State Employees' Retirement System Other Postemployment Benefits (OPEB) and Judges Retirement System OPEB. The actuary has indicated that a payroll growth assumption equal to the wage inflation assumption is appropriate. Pursuant to public acts 181 and 674 of 2018, the Michigan Public School Employees' Retirement System (MPERS) and State Police Retirement System pension and OPEB plans' payroll growth assumptions will be gradually reduced to 0%. The actuary has indicated this gradual reduction is appropriate.
- In response to the request for an analysis as of active employee plan member forecasts, ORS cannot provide such an analysis. The retirement actuary projects future MPERS payroll for the purposes of calculating liabilities and contributions but cannot predict or project hiring patterns within the schools.

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PA 56 of 2019 Section 821.3a

- The *Retirement Plan Election Guide* and *Retirement Plan Decision Guide* are available on the **Retirement Plan Options** page on the **PickMiPlan** website.

PA 56 of 2019 Section 821.3b

- From February 2018 through September 2019, 5,657 (24%) elected the Pension Plus 2 plan, 4,536 (19%) elected the Defined Contribution (DC) plan, and 13,593 (57%) defaulted to the DC plan.

PA 56 of 2019 Section 821.3c

- The *Retirement Plan Election Guide* and *Retirement Plan Decision Guide* are available on the **Retirement Plan Options** page on the **PickMiPlan** website. In addition, new members may learn about the required contributions, including the 50% sharing of any future unfunded actuarial accrued liability payments, in The **Money You Put In** section on the **Get To Know The Plans** page.

PA 56 of 2019 Section 821.3d

- Information about annuity options is available on the **State of Michigan 401(k) and 457 Plans welcome page**, under the appropriate Plan Highlights e-book.

PA 56 of 2019 Section 821.3(e)(i)

- Information on potential outcomes can be found in the **Income When You Retire** section on the **Get To Know The Plans** page. Members are provided information on the calculation of the pension component of the Pension Plus 2 plan, as provided in statute. Members are also provided potential monthly retirement income from investment account balances under different rates of return.

PA 56 of 2019 Section 821.3(e)(ii)

- The assumptions used to derive potential retirement income can be found in the **Income When You Retire** section on the **Get To Know The Plans** page. Members are provided information on the calculation of the pension component of the Pension Plus 2 plan, as provided in statute. Members are also provided potential monthly retirement income from investment account balances under different rates of return.

PA 56 of 2019 Section 821.3(e)(iii)

- The assumptions are disclosed in the **Income When You Retire** section on the **Get To Know The Plans** page.

PA 56 of 2019 Section 821.4

- **MPSERS Contributions Per Pupil 2018**

PA 56 of 2019 Section 821.5

- The timeline for release of the comprehensive annual financial report is established by the Legislative Auditor General.

A regular meeting of the **Michigan Public School Employees' Retirement System Board** was held through Microsoft Teams Meeting, on Wednesday, June 10, 2020. The following members and staff participated:

Members Present: Fred Baker, General Public Member, Health Insurance/Actuarial Science Experience
 Dr. Patricia Chatman, Community College Administrator/Trustee Member
 Liz Eastway, Non-Certified Educational Support Member
 Mike Engle, Active Classroom Teacher Member
 Anne Hamming, Reporting Unit Board of Control Member
 Scott Koenigsknecht, Chair, Michigan Department of Education
 Jeff Mills, Representing School Superintendents Member
 Kevin Philipps, Representing Finance/Operations, non-Superintendents
 Timothy Raymer, Representing Finance/Operations, Retirants, Member of largest retirant organization
 John Solecki, General Public Member, Investment Experience

Staff Present: Anthony Estell, Executive Secretary
 Lisa Reibold, Recording Secretary

Call to Order

Chair Scott Koenigsknecht called the meeting to order at 10:31 a.m.

Excusing of Absent Members

Fred Baker moved, Patricia Chatman supported, to excuse the absence of John Solecki. The motion carried unanimously, although John Solecki was able to join the meeting during the presentations of the annual reports.

Approval of Agenda

Kevin Philipps moved, Mike Engle supported, to approve the agenda. The motion carried unanimously.

Approval of Minutes

Liz Eastway moved, Jeff Mills supported, to approve the regular session meeting minutes of January 23, 2020. The motion carried unanimously.

Special Reports

The Annual Investment Report was presented to members of the board and Greg Parker from Department of Treasury, Bureau of Investments gave a brief summary and was available for questions. No questions were asked.

The Pension Valuation Report was presented to Board members and Mita Drazilov from Gabriel Roeder Smith & Company gave a brief summary of the report and was available to answer questions. No questions were asked

The Health Valuation Report was presented to Board members and Louise Gates from Gabriel Roeder Smith & Company gave a brief summary of the report and was available to answer questions. No questions were asked.

The 2018 Health Management Report was presented to Board members and Angela Hua from IBM Watson Health gave a brief summary of the report and was available to answer questions. No questions were asked.

New Business

Chair Scott Koenigsnecht stated that at the last meeting, the Board considered and clarified the board's original understanding and intent of the payroll growth rate approved by the board in 2018 following the results of the most recent 5-year experience study and the actuary's recommendations. Based on inquires made regarding the clarification, Office of Retirement Services Director Anthony Estell has recommended that the Board execute an updated approval memorandum that explicitly reflects the Payroll Growth Assumption rates that are to be incorporated in each annual valuation beginning with the FY 2018 valuation. Liz Eastway moved, Timothy Raymer supported, that the Board approve the schedule as outlined in the memorandum. The motion carried unanimously. - PG
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Administrative Hearings

Proposal for Decision – Docket 19-011557-ORS

The Board considered the case materials. Timothy Raymer moved, Liz Eastway supported, that the Board adopt as its own the recommendations of the Administrative Law Judge in the February 28, 2020, Proposal for Decision, including the proposed Findings of Fact and Conclusions of Law, and deny Petitioner's application for non-duty disability retirement. The motion carried unanimously.

Nominations Committee for May elections

Executive Secretary Anthony Estell indicated that Liz Eastway and Jeff Mills will be on the committee for chair and vice chair nominations. Mr. Estell requested

that all board members wishing to nominate a chair and/or vice chair, to send their nominations to either Liz Eastway or Jeff Mills by June 30, 2020, for the election at the July board meeting.

Standing Reports

Legislative Summary - The Board received the current report.

Executive Secretary Comments

Executive Secretary Anthony Estell thanks everyone for their patience in conducting the board meeting virtually. He also gave a special thanks to Lisa Reimbold, Nick Soucy and Tim McCormick for their work in getting the meeting set up virtually.

Board Comments

Scott Koenigsknecht welcomed new board members, Dr. Patricia Chatman, Anne Hamming, Fred Baker and John Solecki to the board and congratulated Kevin Philipps on his reappointment.

Public Comments

Royce Humm from MARSP commented saying nice work to all involved in making the virtual meeting happen.

Adjournment

Fred Baker moved, Kevin Philipps supported, that the meeting be adjourned. The motion carried unanimously, and Chair Scott Koenigsknecht adjourned the meeting at 11:19 a.m.

OFFICIAL MINUTES

E-SIGNED by Scott Koenigsknecht
on 2020-07-16 12:48:20 EDT

Chair

E-SIGNED by Anthony Estell
on 2020-07-16 12:00:28 EDT

Executive Secretary



86TH DISTRICT
STATE CAPITOL
P.O. BOX 30014
LANSING, MI 48909-7514
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E-MAIL: thomasalbert@house.mi.gov

MICHIGAN HOUSE OF REPRESENTATIVES

THOMAS A. ALBERT
STATE REPRESENTATIVE

June 9, 2020

Scott Koenigsknecht
Chair, Michigan Public School Employees' (MPSERS) Retirement Board

Dear Mr. Koenigsknecht,

There is no financial justification for raising the payroll growth assumption. For decades, payroll statewide has been in the decline. Revising the payroll growth assumption to an artificially higher rate is not only a breach of the retirement board's fiduciary duty, it also steals wealth from our future generations.

Over the last year, the Whitmer administration has continually spread misleading information on this highly technical matter in an attempt to confuse people and prevent them from understanding the truth. In January of this year I was proved to be right when the Attorney General's office responded to my request for an opinion. To put it simply, in May 2018, the retirement board lowered the payroll growth assumption from 3.5% to 2.75%. The administration had a bizarre claim that a bill I introduced somehow superseded the retirement board. This bill was House Bill 5355, which subsequently became PA 181 of 2018 when it was signed into law. The bill in question required that the payroll growth assumption be lowered on an annual basis by .5% per year for three years starting in FY 21-22. After that point it will lower by .5% or .25%, depending on the costs, until it reaches 0%. In no place does PA 181 of 2018 state fixed values. It does not say that the payroll growth assumption will be 3.5% in FY 20-21 and start to decline in subsequent years. The fact that the retirement board is now proposing to increase the payroll growth assumption proves that its original claims were false.

The administration has now changed their messaging to say that their action on increasing the payroll growth assumption is merely clarifying what has been the plan all along. This is a categorically false claim. I wrote, introduced and negotiated PA 181 of 2018. I worked on this bill from concept until it received the governor's signature. At no point in time did anyone say to me that this bill would be used as justification to keep the payroll growth at a higher rate in the near term. Anyone who knows me would understand immediately that I never would have agreed to such a ridiculous and reckless financial plan.

Furthermore, I recently was given the full MPSERS experience study, which was released in May of 2018. The actuaries made the following statement: "Our preferred approach is for HB 5355 to be amended for an immediate reduction in the payroll growth assumption to 2.75%..." Nobody from the administration asked me to revise the bill to follow the recommendation from the actuaries. The actuaries did go on to say that they could be comfortable with the bill even if there were no changes, but clearly it was not in the best interest of the plan. The Office of Retirement Services did not make me aware of that recommendation because they wanted to keep skyrocketing pension costs as low as possible, even if that meant using assumptions which would be a detriment to the fund.

I urge the retirement board to not revise the payroll growth assumption to a higher rate. This is contrary to what the actuaries and common sense would point to as good financial management. Please do your fiduciary responsibility to the great retirees of Michigan, and our children who will ultimately pay this bill, and leave the payroll growth assumption at 2.75% for Fiscal Year 2020-21.

Sincerely,

Thomas Albert
State Representative
86th House District

